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FOREIGN SERVICE DESPATCH

FROM : LAGOS, NIGERIA

April 3, 1951
DESP. NO. DATE

TO : THE DEPARTMENT OF STATE, WASHINGTON.

AIR POUCH
PRIORITY

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SUBJECT: Nigerian Development.

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In view of the increasing interest with which the development of "underdeveloped areas" is regarded it is believed that the Department will be interested in a discussion on the spot of the potentialities of Nigeria, the financial resources already available for development, and the nature of the task.

Contrary to popular opinion this part of Africa (British West Africa) can hardly be considered a sparsely settled area with immense possibilities for expansion. It is generally estimated that Nigeria has a population of about 30,000,000 persons, half of them residing on the coastal fringe where density is known to reach as high as 1500 to the square mile. Generally speaking the soil is not of impressive richness and the northern part of the country suffers from dryness. The economy of the country is overwhelmingly agricultural with relatively little known mineral wealth. There are, however, adequate reserves of low grade coal, a gradually declining tin production, and a lead-zinc deposit being explored. In addition extensive explorations have been conducted for oil. This research has apparently been favorable enough to encourage the boring of a well by a large foreign firm.

There can be no doubt that there are large areas of the country which are underexploited largely owing to an absence of water - not only rainfall but water for the consumption of inhabitants. One recent large resettlement program proposed by the Government has had to be scaled down considerably owing to this problem.

Given the probable continuance of a predominantly agricultural economy in Nigeria it becomes apparent that the greatest part of development must be devoted to human resources. Much work must be done in improving the methods of the Nigerian farmer as well as his working efficiency. This problem will have to be attacked from two directions, the improvement of the health of the average native and instruction of them in improved procedures. Much of the latter involves the breaking down of conservative prejudices which will be a very slow process.

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When one considers that only about three to five percent of the population is literate and when one considers the high incidence of disease and the absence of a countrywide effective health program the magnitude of the task becomes readily apparent. At the moment much of the educational program is in the hands of voluntary agencies which have just scratched the surface.

In discussing development it is assumed that the land holding system of the country will be retained (in fact it would be hard to change without great opposition) and the development of efficient plantations will be impossible except through cooperative effort on the part of individual farmers. The Nigerian is hard to change his ways and a very patient propaganda program will have to be adopted to encourage the pooling of land. Some work in this direction has already been begun in connection with mechanical cultivation.

The improvement of communications within the country are essential both in opening up new economic areas and assuring the export of produce. The shortage of mechanics and technicians is appalling and if modern communications are to be fully developed efforts must be made to train this type of personnel. It would appear that at the lower levels much greater use could be made of learning on the job, particularly with skilled European craftsmen. It would not appear that this would be an unduly expensive procedure.

It can be seen that any great progress in development is a matter of generations rather than years in the absence (at the moment) of any immensely rich industry which can be developed with some speed. Certainly given the heavy dependence on human resources it will be some time before people can be trained to do more effective work. It must be kept constantly in mind that the nascent political opinion of Nigeria is diametrically opposed to any increase in the number of European technicians within the country. Thus it cannot be accepted as a face that the average Nigerian (who will have more and more to say) will welcome the import of either private or Governmental capital which involves any permanent foreign direction of the economy.

Having stated the problem one can pass on to discuss the possible sources of capital for financing development in Nigeria. This may be divided into three parts: introduction of private capital, investment of savings within the country, and the investment of capital by the Government.

PRIVATE CAPITAL

Large amounts of private capital have been introduced into Nigeria in the past largely in the merchandising and produce fields. Existent firms continue to increase their investment into the country but on a considerably reduced level. There would appear to be little room for further introduction of new firms into this field unless they were in a position to compete with the United Africa Company which has what amounts to a stranglehold on trade at the moment. Certainly as long as the present exchange regulations are in effect it would not pay an American firm to enter this highly competitive business. The United Africa Company is also interested in the timber business and monopolizes inland transport on the Benue and the Niger. Internal communications and transport (except in the case of one or two large trucking firms) are almost entirely in the hands of the Government (the railroads, West African Airways, Posts and Telegraphs, Radio, etc.) leaving little for the private investor. There are possibilities in the field of ocean transport of which there appears to be a recurrent shortage.

Further in view of opposition to the plantation system it is not possible for private trade to enter into the agricultural field. Thus unless the Government is willing to drastically change its policy it is unlikely that American private capital will be attracted except for the exploitation of possible mineral deposits.

One very important consideration is the period of political transition through which the country is passing which effects the assurance of future economic stability.

INVESTMENT OF SAVINGS WITHIN THE COUNTRY

It is an undeniable fact that there are considerable holdings of capital in the hands of African businessmen although no estimate can be made of them. These holdings are not available for long term investment since (1) the average African prefers to keep his funds liquid and (2) he demands an interest rate which would be uneconomic except in financing trade transactions (rates often go as high as 50%). The two banks in the country which handle the large majority of the business are European owned and find it impossible given various restrictions to invest any money with collateral backing.

From the above it is apparent that domestically held capital cannot be made available for development. There is, however, another source of local capital which is not available at the moment but which might have considerable economic importance.

It is believed that the various commodity marketing boards have on hand reserves in the neighborhood of £50,000,000. The primary purpose of these reserves is the maintenance of the stability of commodity prices. It is a question, however, as to how long these reserves may continue to mount. For the moment they are invested in British Government securities. Thus they represent a large factor in the Nigerian balance of trade. These boards are ostensibly private bodies with large African representation but it is apparent that their policies are largely set by the Nigerian Government.

They have accepted the philosophy that they must contribute to the development of the country and have delegated (except in the case of the Cotton and Cocoa Boards) to the three regional Production Development Boards the expenditure of money on various projects which must be connected with increased agricultural production. These amounts contributed have up to the present been relatively small given the large resources available.

The question presents itself, therefore, as to whether it is justifiable for a country which has this large reserve of available capital to request or receive assistance from abroad (other than where there is a shortage of foreign exchange). Obviously this amount will not suffice for the whole job but it certainly represents more than it would be possible for another Government to lend.

GOVERNMENT FINANCE OF DEVELOPMENT

Nigeria is fortunate in being one of the few countries of the world which produces a surplus in its finances. The debt of the country is a little more than £17,000,000 a large part of which is funded. In addition the Government possesses what is known as a "Revenue Equalization Fund" of about £10,000,000.

However, a part of the revenue of the country is derived from Colonial Development and Welfare Funds which are contributed by the United Kingdom. These grants are a part of a ten year development program initiated in 1946 (and recently revised) under which over £23,000,000 are to be contributed. Additional funds are appropriated out of revenue and it is expected that loans will be floated bringing the national debt up to £35,000,000. There is some debate as to how much revenue can be collected from the Nigerian economy since the size of the national income is not known. In the opinion of the reporting officer the present revenue system places little burden on the average Nigerian. The company tax is already high, however, and customs and excise have reached very near the limit.

The ten year program will probably not affect the internal economy very greatly and although the Government can contribute considerable amounts during boom times it can by no means cope with the full problem.

SUMMARY

In view of the limited natural resources of the country it appears likely that Nigeria will continue to be primarily agricultural and development must take the form of extension of the area under cultivation and above all the education of the farmers in improved methods. This is especially true in view of the existing land system which forbids the development of well directed plantations. It is most important that the human resources develop along with material development in the field of transportation and communications. This will require a long period of time and if the development of the country is to be conducted on sane lines great achievements cannot be expected overnight. Only a beginning has been made in this direction. Finally all development plans must take into consideration the political trends of the country; they must have in view the training of local technicians rather than the importation of large numbers of trained Europeans.

It should be possible in cooperation with other countries to work out some system for achieving the stabilization program of the Marketing Boards without tying up so large a part of the economic profits of the country.

Edwin D. Crowley
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